

From: [Ehud Barak <ehbarak1@gmail.com>](mailto:ehbarak1@gmail.com)

To: [Idan Ofer <idan@ofer-email.com>](mailto:idan@ofer-email.com)

CC:

Date: Wed, 3/11/2015 4:13:10 AM

Subject: Re: Ian Bremmer's views

Hi Idan

Thx. I've enjoyed very much meeting you at the Club.

Bremmer is Good. You can keep sending me his papers whenever you find them interesting.

The name of the father in law of the guy we've met is Namir Kirdar.

Let's stay in touch.

Best

Ehud

Sent from my iPhone

On Mar 10, 2015, at 02:42, Idan Ofer <idan@ofer-email.com> wrote:

Hope you find this analysis of value as I did

Idan

Dear Idan,

The aftermath of Netanyahu's visit to Washington. Iraq, Syria and the expanding fight against ISIS. Some longer term thoughts I've been mulling over on Africa.

Israel / Iran / United States

Certainly from his perspective, Israeli Prime Minister Bibi Netanyahu's trip was a success. He delivered what was the most powerful speech on Iran in Congress since the hostage crisis, with plenty of standing ovations (some 26 in all). President Obama's refusal to see him plays well back at home, where Obama is extremely unpopular, as does Netanyahu's vituperative rejection of the Obama/Kerry Iran nuclear negotiations as a "bad deal." He bounced a couple points in local polls accordingly, making the visit well worth his time in an exceptionally hard fought and close election (though I'd caution...there remains at least a coin flip that we end up with a national unity government and Isaac Herzog alternating with Netanyahu as PM).

Locally, the animosity was cooled by the desire for most Democrats to express their support for Israel even if not for the Israeli Prime Minister. Obama's decision to offer a "rebuttal" weakened the President's hand on the day, legitimizing Netanyahu's visit after the White House had claimed Obama wasn't planning to watch the speech. It had the effect of appearing like the minority reaction after a rousing State of the Union. While those with the most partisan rancour to vent

against Netanyahu and the Republican leadership were taken off the headlines by a scandal over Hillary Clinton's email practices as Secretary of State.

Still, the Iran deal proceeds apace. Negotiations between Secretary of State John Kerry and Iranian Foreign Minister Javad Zarif have now entered a critical phase. Many Republicans (as well as, more privately, the European leaders in the p5+1) now echo Netanyahu's concern that the negotiations have swayed too far in the Iranian direction; I've now heard several European leaders express caution that Kerry has been too eager to get a deal done. Iran, having been praised for its willingness to accept a lower number of total centrifuges, has been digging in on other parts of the negotiations--particularly their not well documented/ inspected research and development capabilities. There's certainly urgency in the White House to announce a "breakthrough" by the end of this month; if anything, the public opposition has increased the resolve to put some points on the board. And that's across the board for the Administration: it's noteworthy that while there's been a significant disconnect between the White House and Kerry on a number of Middle East issues--Syria, Egypt, Israel/Palestine--they've been very well coordinated on Iran. Which means a framework deal by the end of this month looks very likely at this point.

But critically, that's not a deal. Then the outcry will grow for parameters of a deal which will be public both domestically and internationally, with the Gulf States piling on. (Kerry's trip to Saudi Arabia last week didn't go well on that front, with the US promising they'll provide--read: sell--the Saudis missile defence capabilities, the Saudis basically telling Kerry to listen to Netanyahu). The removal of sanctions will be a sticking point for Tehran, Iran's Conservatives will balk, and the final agreement remains ultimately unlikely to get done.

What's increasingly important is not whether the deal fails but how it fails. As the response from the United States (and its Republican led Congress) is to level more sanctions against Iran, but for everyone else the reaction depends on how effective Tehran is at painting the United States and Israel as responsible for the collapse in negotiations. Russia is extremely interested in stirring the pot on this front; if their argument is credible, we could see the sanctions regime start to erode quickly. To be sure, that's not a sudden huge win for Tehran: the American economic hit matters the most and limits other countries' investments even if their policies don't follow, given the strength of US financial institutions and their influence abroad. So too lower oil prices creates little urgency for, say, Beijing to actively alienate Washington with a sudden dramatic infusion of investment dollars into Tehran. But the trajectory will shift away from isolation, and that's enough to keep the Iranian hardliners afloat for some time.

ISIS

The fight against ISIS continues with the largest battle to date, an effort by the Iraqi army to retake Tikrit, a Sunni city of some 300,000 population. Two major caveats. One: it's now mostly empty, most of the population fled, so while there's significant risk for military casualties, there aren't many civilians in the line of fire. And two: the United States is sitting this one out. There's no bombing from the US, because Iranian troops are fighting alongside roughly 25,000 Iraqi forces and Shia militias in addition to another few thousand pro-government Sunnis. That's the way the fighting in Iraq is proceeding: the Americans have a theatre, the Iranians have a second--more important/boots on the ground--theatre, and the Iraqis work to ensure that the two don't overlap.

It's not the best way to fight a war. And it's going to make the core battle of Mosul much more challenging, where both American firepower and Iranian ground support will be critical. The initial intention is to break the siege of the city itself into different theatres...I doubt that works for long. Further, it's clear the Iraqi troops aren't close to ready to take on that fight. Strong pushback from Baghdad after the Obama Administration announced an intention to remove ISIS from Iraq's second largest city (and ISIS's base of operations) within three months led to cautionary notes from the Pentagon...and then the White House casting aside that policy as premature. Also not ideal.

Having said that, I remain fairly optimistic about the eventual defeat of ISIS in Iraq. In part because ISIS itself is starting to tilt its resources into Syria, where it's much easier for them to operate. That means oil production in Iraq stays strong going forward, while the Iraqi Central Government and the Kurdish leadership gain in popularity and effectiveness. It takes years, not months, to say that ISIS is defeated there, but that also means a longer period of time for the Iraqi military to train and integrate, sorely needed and well over a decade late. The big challenge in Iraq, eventually, is that despite the military and state building, a reassertion of Iraqi sovereignty over the Kurdish region isn't in the cards, and the country eventually splits into two (though not three--and there's a better chance that the Shia government will be able to more effectively share power with the newly liberated, and appreciative Sunni).

That's Iraq. There's no rebel military building in Syria ala the Iraqi army and no rebel government coming together. And so there remains no prospect for an effective fight against ISIS in Syria without an American rapprochement with Assad and Hezbollah, which isn't remotely in the cards for either the United States or the (largely Gulf Arab) regional coalition. Further, Turkey's willingness to help fight ISIS directly remains limited. And so ISIS persists for the foreseeable future. It's almost entirely displaced al Qaeda as the most attractive and capable terrorist force for would-be adherents across the region; more local cells will metastasize accordingly. ISIS's big win this weekend should be seen in that context, with the at least rhetorical lash-up with Nigeria's Boko Haram. ISIS is losing territory, but it's winning minds.

Longer term, there has to be a more intensive fight against the ISIS narrative, which means the core principles of Islam that they're subverting to give credibility to their cause. It's true that it won't be effectively led (at least publicly) by the United States. But thus far that's been limited to one significant speech by Egypt President Abdel Fattah el Sisi, starting to address the root causes by calling for the reform of Islam...and then also using it to paint his own Muslim brotherhood with the same brush. It requires bravery and leadership for Arab states to squarely and honestly take on this issue; ideologically, they remain much more comfortable casting their speeches along sectarian lines than the deeper issues around radical terrorism in the Sunni communities. All of which gives more space for ISIS to operate over the coming year.

Africa

I've long been writing about the opportunities in Africa. It's the world's last great underdeveloped space. With great commodity wealth critical for a world with a growing middle class and expanding demand. A large and extremely fast growing population; increasingly urbanized, educated, and in better health and far less

impoverished. Infrastructure remains critically underdeveloped, but technology nonetheless is quickly bringing an additional billion African consumers into the global market (and, indeed, in some areas--like mobile banking--African innovation has played a significant role).

It's a slow battle, to be sure, and from a very low base. Governance remains mixed, and growing demands for accountability from Africa's middle classes will disappoint in most African states given entrenched corruption and lack of technocratic experience in bureaucracy; that change will be uneven in even the best cases. but there's just too much reason for upside; there's too much improvement in human capital from a tremendously low base not to expect at least five to ten years of very solid returns in infrastructure, retail and consumer, healthcare, services, and all sorts of related sectors for investment into sub-Saharan Africa.

When we start talking longer term, though, we start seeing some challenging intervening variables.

Here's one. Labour. Africa's going from poverty to educated in a short period of time, and over the next 20 years will be bringing the world's largest pool of trained labour into the marketplace. This will happen even faster than India, because the demographics are expanding more quickly, and because Africa is more urbanized, and African women are better educated. That's an enormous opportunity--we already see it with Chinese companies outsourcing light manufacturing to markets like Ethiopia, while western technology companies like IBM and Microsoft are heading to Kenya for software support instead of a knee-jerk move towards India. But it also brings a concern: is Africa's trained labour boom poised to hit at exactly the time when the world no longer needs the labour?

The developed world has seen its middle class hollow out somewhat because some jobs were globalized, others taken away by technology. But the scale of the problem is limited by the wealth of the countries and the ability for governments to respond with transfers if internal political dynamics demand it or, failing that, social instability grows too large. It's potentially a bigger problem for China given that they've extraordinary manufacturing demand. But Chinese demographics are taking people out of the labour force just as that squeeze is coming (indeed, China will be older, on average, than the far wealthier United States by 2020). Africa, on the other hand, will have vastly younger demographics at a lower level of production. And so they grow, the market size picks up, infrastructure investment happens. The labour intensiveness starts very high and it is inefficient, but that's okay because the labour is so prevalent. But as industrialization and service sectors pick up, what drives employment in sub-Saharan Africa? That's a big open question. It will be further challenged by questionable governance in Africa--particularly on politically sensitive issues like land reform, critical to unlocking investment in agriculture and shifting production away from subsistence and towards greater value addition.

That plays into radicalism. Historically violent African social movements have been mostly tribal movements, and stayed localized because they were rural, poor and uneducated. Change that to urban and technologically sophisticated, seriously overpopulated with limited government oversight. In countries where radical Islamic and radical Christian ideologies have taken hold. The Sahel, northern Nigeria and Somalia are already hotbeds of terrorism, though the threat has made relatively few inroads further south. If the worst comes to pass

demographically and economically in Africa, in a generation the biggest source of global terrorism will no longer be the Middle East.

Then there's climate change. Another topic I don't write much about because it's not near term. But the main medium stage impacts aren't in the developed countries, in temperate regions. It's in extreme temperature zones, where fluctuations will become greater. More extreme flooding, more extreme drought, in a region of the world that has the least built infrastructure and broader institutional architecture to handle it.

Finally there's the question of international coordination. A g-zero world leads to regional integration and involvement. Long term, China provides more of that in Asia. The United States in the western hemisphere. (Europe's a longer conversation, but much wealthier so there's less pressure for Germany to ensure it "works"). All of which has its challenges. But in Africa, the regional networks aren't there and won't be built in time (the African union is more than just a talk shop, but falls far short as a force for regional cooperation). International response will remain critical. But the United States and Europe respond much more clearly to ISIS than to Boko Haram. Ditto an Ebola outbreak. These challenges are going to grow.

And so long term, I'd say the world has two big question marks in terms of trajectory. China and Africa. China, because the political system may not hold as they attempt to power their way through economic transformation (though I'm vastly less negative than David Shambaugh in this weekend's Wall Street Journal; I'll write about that next week). And Africa, because the external forces for change may be greater than the roots that are taking hold.

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I'm starting to watch **Brazil** much more closely, with investigations into the Petrobras scandal now moving into the investigations of political officials. It's an enormous distraction of government resources, limiting capacity for reform across the board, but also potentially starting to directly affect the leadership of Dilma's party itself. If she has to protect her own anti-corruption credentials she surely will, but that could mean a schism with former President Lula and his supporters, leaving Rousseff politically isolated, when commodity prices are down, growth is flat, and social demands are on the increase. It's becoming by far the most challenging year Brazil has had since Lula took office.

And that **Hillary email** flap--everybody's writing about it, so I don't want to take too much time. It's a serious embarrassment and has been poorly handled--especially because it fits neatly into broader ethical concerns. Which will make the criticisms sticky (think the persistent vulnerability of Mitt Romney to his personal tax issues), but it's nowhere close to big enough to derail the campaign. Unless...private emails that should have been classified start getting out. A WikiLeaks style event against a presidential candidate; that would be a first...but surely we're going to see one soon. The private servers during her Secretary of State appointment make that vulnerability.

As for me, I'm in New York this week. Is winter over yet??

Very best,
Ian

